

TO: Members of the General Assembly

FROM: Governor Phil Bredesen

DATE: April 30, 2003

SUBJECT: Good News from CMS

I am pleased to report that the Centers for Medicare & Medicaid Services (CMS) have agreed to lift the stabilization cap negotiated last year as part of the TennCare waiver. The bottom line is that we will receive \$175 million in assistance from the federal government which will help offset the \$470.4 million General Fund shortfall we face in closing the books this year. I can't emphasize enough, however, that this does not impact our situation for next year in the least.

To give you a little background -- when the TennCare waiver was negotiated last year, the State of Tennessee accepted an 18-month cap on increased TennCare costs. The net effect of the stabilization cap was to establish a fixed cost for TennCare -- any amount above which became the responsibility of the State without any federal match. In reality, the actual costs of TennCare have far outpaced not only our own budgetary projections but also the stabilization cap amount. The result is the State having to bear a \$175 million expense that would have ordinarily been paid for with federal dollars.

Over the last several weeks we've been working with federal officials to negotiate the lifting of that cap. Today's news marks the culmination of these initial talks and completes the first of the four step TennCare turn-around process I've spoken with many of you about.

As a result of this news, we will be able to close this year's books without having to completely empty the Rainy Day Fund and other statutory reserves as was originally feared. It will still leave a sizable deficit for us to fill however. While I'm attaching a detailed plan, the major elements of what we're proposing are as follows:

- Proceed with the \$134.5 M cuts previous outlined:
 - ? Elimination of a \$50 million contingency fund held for a potential \$550 million obligation related to the nursing home bed tax
 - ? Reduction of \$30 million from the highway fund
 - ? Reduction of \$54.5 million from higher education
- Cover the remaining \$67.2 M deficit out of the Rainy Day Fund

- Knowing it is still possible that due to revenue undercollections or other problems we may need additional funds, I am recommending that any remaining balance be taken from the \$80.3 M of statutory reserves.

Everyone should remember that this only affects our ability to close out the current fiscal year. It does not change any plans for next year. I am very firm in my position that we must balance next year's budget in a fiscally responsible way. That can not be accomplished by using one-time funds but instead requires us to make reductions in recurring funds. Anything short of that does not really solve our problem. That means we must still reduce departments, transfer road funds and reduce state shared taxes by 9%.

My hope is that by taking these steps, we can convince the bond rating agencies, and more importantly, the people of Tennessee, that we can operate in a fiscally sound manner. The issues with both the agencies and the voters are confidence and trust, both of which have been significantly eroded over the last few years. By joining together to make these hard, but necessary decisions, we can begin to rebuild our position as one of the better managed states in the country – something from which we will all benefit.

I hope this information is helpful. Please let my office know if you have any questions.

Plan for Closing FY 2002-2003

Projected Deficit

1. Supplemental Appropriations	\$ 36,300,000
2. Budgeted revenue estimate reduction	\$ 64,500,000
3. TennCare Supplemental Appropriation	\$ 194,900,000

Total Projected Deficit	<u>\$ 295,700,000</u>
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Revenue Adjustment

1. FY 2002-03 Unbudgeted Revenue	\$ 9,200,000
2. Revenue Estimates Increased:	
Insurance Premium Tax	\$ 20,000,000
Refund of Prior Year Expenditures	\$ 5,000,000
Tobacco - Revised Estimate	\$ 7,000,000
Other Revenues	\$ 3,700,000

Total Revenue Adjustments	<u>\$ 44,900,000</u>
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Total Revenue Shortfall at 6/30/03	<u>\$ 250,800,000</u>
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Plan for Closing

1. FY 2002 Closing Balance	\$ 11,300,000
2. FY 2003 Debt Service Transfer	\$ 28,000,000
3. Overappropriation Increase to \$120M minus health insurance	\$ 23,200,000
4. Higher Education - 5% reversion minus health insurance	\$ 41,100,000
5. Reserve for Contingent Liability	\$ 50,000,000
6. Highway Fund Transfer	\$ 30,000,000

Subtotal	<u>\$ 183,600,000</u>
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Remaining Deficit	<u>\$ (67,200,000)</u>
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7. Rainy Day Fund	<u>\$ 67,200,000</u>
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Available Balance Statutory Reserves	\$ 80,271,400
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Remaining Rainy Day Fund	\$ 110,800,000
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